Executive Reward Benchmarking Stop Guessing and Align Pay with Performance

You have just experienced the loss of your visionary CFO to a direct competitor.

Company culture wasn't the reason. They had enough challenges too. The reason was negotiating the competitor's remuneration package to make your package appear like a starter salary.

Now, your board is in a state of panic, shareholders are raising questions, and you are trying to find someone who can fill a very big leadership vacancy.

This is the cold, hard truth if you decide to ignore executive reward benchmarking.

When traders' pay is made based on one's hunches or data from the past, then you are putting your head in a risky game of executive roulette.

The ***highest level decisions*** carry very high stakes, and guesswork is not an option. You want the leadership to behave in a way that increases the value of shares to shareholders in the long term, and a strategy for compensation based on data will be the need of the hour.

We will also discuss ***how to balance and determine*** the appropriateness of the executive remuneration plans in order to be able to lure and retain talent that matters to the company.

WHAT IS EXECUTIVE REWARD BENCHMARKING?

Simply put, **executive reward benchmarking** entails closely examining and comparing your top ***executives' pay*** and benefits packages against what the current market offers.

It primarily serves to guarantee that your company's highest-ranking officials receive fair, competitive, and performance-related remuneration.

However, it's not only about figuring out base salaries.

A ***well-rounded executive pay package*** takes into consideration the whole range of **total rewards**. It is a strategic juggling of fixed salary, short-term incentives, and long-term wealth accumulation.

If done right, it brings in visionary leaders. If done badly, it may lead to attracting irritations from proxy advisory companies and activist investors.

WHY YOUR PAY POLICY COULD BE LOSING YOUR BEST EXECUTIVES

We tend to think that money is the only thing that executives care about. However, today's leadership really sees pay as a representation of how much the board appreciates their contribution to the company's strategy.

The Hidden Consequence of Paying Less

Top talents will figure out if your compensation benchmarking data is not updated to the latest market trends even by a small margin. Senior executives have extensive networks. Once they discover that their **stock awards** and bonus levels are not up to par with those of other companies, their focus on work diminishes. In fact, they may have been mentally out for several months before submitting their resignation.

Why Overpaying Is Risky Too (And How Activist Investors Can Take Advantage)

On the other hand, excessive remuneration of mediocre executives can cause the same level of damage.

If your ***CEO's salary*** goes up significantly at the same time as shareholder value is declining, you might as well be inviting activist shareholders.

Accurate benchmarking can supply the Remuneration Committee with the evidence necessary to stand by their pay choices when faced with proxy voting.

Expert Tip : Be careful about benchmarking only the average. An executive at the top quartile would be expecting a pay package equivalent to the top quartile. Your target pay level ***(e.g., 50th vs. 75th percentile)*** should always be in line with your company's growth and market positioning goals.

THE CORE COMPONENTS OF A C-SUITE COMPENSATION PACKAGE

You can't compare a package if you don't understand it.

The proposal for a ***competitive executive requires*** a finely balanced mixture of four independent pillars.

Compensation Pillar	What It Is	Purpose	Market Standard
Base Salary	Fixed annual cash compensation.	Provides a stable income floor.	Typically 15-25% of total C-suite pay.
Short-Term Incentives (STI)	Annual cash bonuses tied to 12-month goals.	Drives immediate operational execution (EBITDA, revenue).	Target is usually 50-150% of base salary.
Long-Term Incentives (LTI)	Equity, stock options, or performance shares vesting over 3+ years.	Aligns executive wealth with long-term shareholder value.	Often makes up 50%+ of total compensation.
Perquisites & Benefits	Deferred compensation, premium healthcare, retirement matching.	Enhances overall lifestyle and provides tax advantages.	Highly variable based on industry and region.

HOW TO CONDUCT EXECUTIVE REWARD BENCHMARKING (A 4-STEP FRAMEWORK)

Who still works with spreadsheets and generic salary surveys? Real executive reward benchmarking needs a focused approach to data and strategy.

Step 1 : Architecting the Perfect Peer Group

The ***benchmarking accuracy*** depends on the companies you measure your performance against. It is a mistake of a beginner to select a peer group based only on industry.

You should find 15 to 20 companies that most closely match your business reality. Here is the list of peer evaluation criteria :

- ***Financial Scope :*** Revenue size, market capitalization, and asset value.
- ***Industry Dynamics :*** Direct competitors for talent and capital.
- ***Business Life Cycle :*** Are you a high-growth SaaS startup or a mature manufacturing firm?
- ***Geographic Footprint :*** Global complexities drastically alter pay expectations.

Step 2 : Finding Reliable Market Data

Online salary calculators are not handy at all when distributing the executive pay. You will need thoroughly researched and quality verified proxy data along with executive compensation surveys.

Using a reputed compensation consultant or a well-known data platform is an efficient way to check whether the comparison is done correctly. Besides public companies' proxy statements, look at private compensation surveys for a well-rounded view of the market.

Step 3 : Making Pay Reflect Business Goals

Data gives you knowledge about ***"what, "***but your business strategy sets the direction for ***"how."***

In the case of a company aggressively acquiring, your **long-term incentives (LTI)** should be a significant portion of the salary to keep the executive oriented towards integration and stock performance. For a turnaround scenario, a strong emphasis on cash-based **short-term incentives (STI)** might be necessary to improve the cash flow immediately.

Step 4 : Creating a Permanent Review Cycle

You and your strategy for paying executives cannot standstill as the talent market changes.

Benchmarking in a detailed manner should be done annually.

Update your peer group every two to three years so that it consistently mirrors your company's size and direction.

An unchanged compensation strategy is a walk to the grave of the compensation strategy.

THE DEADLIEST PITFALLS IN EXECUTIVE REMUNERATION

Experienced ***HR leaders and boards*** are sometimes tempted to make mistakes when evaluating the highest paid executives' salaries.

Below you will find some typical errors which you should avoid :

- ***Reacting to the Competitive Market Desperately :*** Simply increasing salaries only because a competitor has done so, without connecting it to an improved achievement level, completely breaks the ***pay-for-performance*** relationship.
- ***Not Considering Internal Prices :*** Giving an external new hire **40% higher pay** than your already loyal, top-performing internal executives is the quickest way to a cultural riot.
- ***Making Things Too Complicated :*** If an executive has to figure out his or her bonus by using a calculator with several functions, the motivational effect has disappeared. Make ***KPIs*** simple and transparent.

FAQ'S

Q: HOW OFTEN SHOULD WE UPDATE OUR EXECUTIVE BENCHMARKING PEER GROUP?

You should check if the criteria are still relevant on a yearly basis, but a major revision of your peer group should be done only every ***2-3 years*** or in case there is a major change in your company ***(e.g. acquisition or going public)***.

Q: PRIVATE COMPANIES DON'T HAVE PROXY DATA. HOW DO WE BENCHMARK?

Private companies will have to depend mostly on buying specialized compensation surveys. You can also examine public proxy data of somewhat smaller companies and apply a discount factor to account for the lack of liquidity in private equity.

Q: SHOULD ESG GOALS BE TIED TO EXECUTIVE

COMPENSATION?

Definitely. In fact, this is the best practice nowadays. Linking a certain portion of the bonus to diversity, sustainability, and governance targets communicates to shareholders that the company leaders are serious about comprehensive and responsible growth.

71-75 Shelton Street, Covent Garden, London, United Kingdom, WC2H 9JQ
+44 7984 860230 | info@rooted-hr.com

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